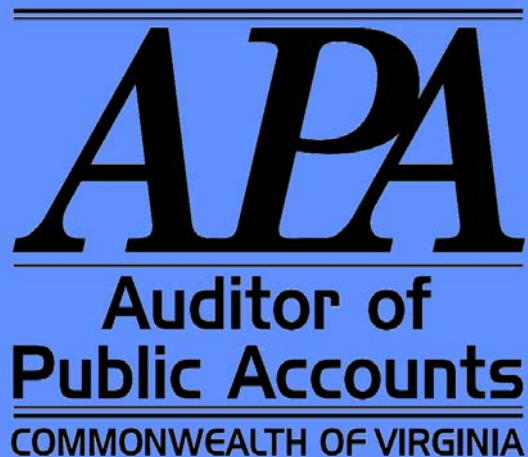


VIRGINIA COMMUNITY COLLEGE SYSTEM

**REPORT ON AUDIT
FOR THE YEAR ENDED
JUNE 30, 2011**



AUDIT SUMMARY

Our audit of the Virginia Community College System for the year ended June 30, 2011, found:

- the financial statements are presented fairly, in all material respects;
- certain matters involving internal control findings requiring Management's attention; however, we do not consider them to be material weaknesses;
- instances of noncompliance or other matters required to be reported under Government Auditing Standards; and
- Northern Virginia Community College has not completed corrective action with respect to the prior year finding "Strengthen Internal Controls over Small Purchase Charge Card Program."

We have audited the basic financial statements of the Virginia Community College System as of and for the year ended June 30, 2011, and issued our report thereon, dated June 18, 2012. Our report, included in the System's Annual Financial Report, is available at the Auditor of Public Accounts' website at www.apa.virginia.gov and at the System's website at www.vccs.edu.

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Monitoring Controls Over High Risk Transactions

Applicable to: System Office
 Mountain Empire Community College
 New River Community College
 Northern Virginia Community College
 Southwest Virginia Community College
 Tidewater Community College
 Virginia Highlands Community College
 Wytheville Community College

The Virginia Community College System (VCCS) designed its application controls within the PeopleSoft Accounting Information System to potentially permit improper separation of duties within the general accounting and accounts payable processes. While VCCS designed roles within the application in order to accommodate both large and small business offices at each College, there are some inherent risks involved in doing this. Our review of application role assignments across all of the Colleges tested found multiple instances where users could perform the following high risk activities.

- Change the vendor table and create and process accounts payable transactions, which allows for payments.
- Enter and release general ledger entries.
- Enter and release accounts payable entries.

These permission combinations within the accounting system are inherently risky as they permit processes which the same users should not perform. We understand that many of the Colleges with minimal staff in their business office need to have these access roles for backup and contingency planning purposes in the event of an emergency or absence of key personnel. However, the Colleges should have a means of monitoring these transactions when they do occur since they carry a higher amount of risk.

Modern accounting systems rely on programmed internal controls and not manual processes. While manual processes may create the illusion of having proper internal control and separation of duties, the responsibilities and duties as they exist in the system are what the individual can really do regardless of whether a person signs or reviews a piece of paper.

While each College outlines how individuals manually separate their performance within processes in their policies and procedures manuals, there is an absence of a monitoring activity combined with the lack of preventive system controls discussed above. We believe this situation creates undue risk that managers and others could override manual policies and authorize improper transactions within the system without detection.

Our additional substantive tests did not discover any inappropriate or unreasonable accounts payable or general ledger transactions. However, the System office should develop and disseminate a monitoring report to each College on a periodic basis that would identify instances where individuals have overridden these policies and procedures so management can take action to ensure that those high risk transactions are appropriate.

Deactivate Separated Employees' Finance Application Access Timely

Applicable to: Northern Virginia Community College

Our review of all active AIS and SIS PeopleSoft users found 15 terminated employees with active access to Northern Virginia Community College's Student Information System. It is a generally accepted best practice for timely removal of all application access upon employee termination to enhance the security of sensitive and mission critical data and processes.

Management needs to change the current College procedures for removing access to the network, operating systems, and applications to include the timely removal of all system access. We recommend the Colleges develop, implement, and enforce adequate procedures to ensure deleting all system access in a timely manner upon employee termination.

Update the Authorized Signatory Card for Local Fund Accounts

Applicable to: Wytheville Community College

A terminated Wytheville Community College employee had bank signatory authority for more than 11 months after resigning. This signatory authority allowed this individual to act as a representative with the bank on behalf of Wytheville Community College. Although we found no indication of misappropriation of funds, this represents an internal control weakness.

Wytheville Community College should establish, implement, and document a process to update signature authority immediately upon employee separation. Management should also periodically review the appropriateness of signatory authority as an additional measure to prevent unauthorized access.

Deactivate Separated Employees' Procurement Application (eVA) Access Timely

Applicable to: Northern Virginia Community College
Tidewater community College
Wytheville Community College

We found that the College personnel were not following employee separation procedures for the removal of information system access to various applications.

We found Northern Virginia Community College did not remove access to eVA for 19 of 27 terminated employees within a reasonable time after separation.

We found Tidewater Community College did not remove access to eVA for 5 of 8 terminated employees within a reasonable time after separation.

Wytheville Community College did not have a process in place to review user access to the eVA application periodically.

The Department of General Services' (General Services) eVA Electronic Procurement System Security Standards section 3.1.5 requires the deactivation of all system privileges within 24 hours after an employee's termination. Compliance with these standards is necessary to prevent misuse and possible fraud. eVA is a web application that anyone can access by computer, therefore; deactivating eVA user IDs promptly is necessary to keep former employees from accessing the system after their termination.

Strengthen Controls over Purchase Card Program

Applicable to: Northern Virginia Community College (Repeat Finding)

Northern Virginia Community College continues to have inadequate control over its purchase card program. Individual cardholders for Northern Virginia Community College that are responsible for maintaining relevant documentation supporting charge card purchases were unable to provide complete purchase logs, reconciliations, or supporting receipts.

The College should enforce their established policies and procedures for use of small purchase charge cards. Management may employ procedures to enhance the enforcement of the policies and procedures through monitoring processes, increased training, increasing the pre-approval process for purchase card transactions, or any combination of the three. When management identifies cardholders who are not following the College's policies and procedures, they should take appropriate action in order to mitigate the risk of fraud, waste and abuse by cardholders.

Perform Fixed Asset Physical Inventories

Applicable to: Mountain Empire Community College
New River Community College
Wytheville Community College

Mountain Empire Community College did not perform a complete physical inventory of capital assets within the two year period established within its fixed asset accounting policy. While we recognize that MECC's fixed asset employee left employment while in the process of conducting the bi-annual inventory, MECC did not finish the inventory until after the completion of our fieldwork.

New River Community College did not perform a complete capital asset inventory within the required two year period. While staff did an inventory of some equipment, they did not perform a full inventory of all controllable assets. The College also did not properly identify or correct reconciling items during the partial inventory.

Wytheville Community College did not complete a capital asset inventory within the required two year period. We recognize that Wytheville also experienced significant turnover during the audit period, however the periodic inventory process is a critical control in ensuring the existence and completeness of equipment.

Periodic inventories are a key control that helps to ensure the accuracy and integrity of capital asset records and mitigates the risk of stolen or lost College property. The Colleges should follow their established policies and carry out the periodic inventory in a manner that allows a 100 percent inventory of all controllable assets within a two year period to address this risk.

Improve Payroll and Leave Controls

Applicable to: New River Community College

New River Community College (NRCC) could not provide work study timesheets for fiscal year 2011. Colleges must verify that an appropriate party has properly completed and authorized all source documents such as timecards, timesheets, or any other authorization to pay or adjust an employee's pay, and that such documents are accurate and recorded in the payroll system. Additionally, the Colleges must maintain evidence of any changes so that it is accessible for current or future reviews. Not having the appropriate evidence of student work-study work times increases the risk that the College may have to repay the Federal Government all of amounts paid. NRCC should revise its records retention procedures to ensure payroll source documents are properly maintained and accessible for a reasonable period of time.

Additionally, NRCC could not provide policies, procedures, or supporting evidence for their leave liability accrual. While we were able to materially substantiate the College's leave liability through alternative analytical procedures, the College should develop, implement, and adhere to consistent procedures for calculating leave liability each year.

STUDENT FINANCIAL AID COMPLIANCE AND INTERNAL CONTROL FINDINGS

Improve Notification of Direct Loan Awards to Students

Applicable to: Dabney S. Lancaster Community College
New River Community College

The Financial Aid Office is not properly notifying students of Federal Direct Loan Awards. The Financial Aid Office communicates loan awards verbally to students when they speak with a financial aid staff member instead of the required written notification to students which provide important details on the rights, options, and requirements of the student loan.

Code of Federal Regulations, Title 34 CFR 668.165(a)(2), requires institutions to properly notify students receiving direct loans, in writing, of the date and amount of the disbursement, the student's right to cancel all or a portion of a loan or loan disbursement, and the procedure and time by which the student must notify the institution that he or she wishes to cancel the loan. Failure to properly notify students in accordance with Federal Regulations may result in fines, withholding of Title IV funds, or suspension or termination of participation in Title IV programs.

Reconcile Financial Aid Activity to Federal Systems

Applicable to: Dabney S. Lancaster Community College
New River Community College
Virginia Western Community College

These Colleges are not reconciling their accounting records with the Direct Loan Servicing System (DLSS) or their Pell financial records with the Common Origination and Disbursement (COD) system.

In accordance with 34 CFR 685.301(e) and 34 CFR 685.201(b), colleges must report all loan disbursements and submit required records to the Direct Loan Servicing System via the COD within 30 days of disbursement. Each month, the COD provides the college with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and Loan Detail records. The Financial Aid Office should reconcile its financial records with those of the Federal Government monthly to help ensure the accuracy and completeness of both sets of records.

Appropriately Report Federal Pell Grant Disbursements

Applicable to: Dabney S. Lancaster Community College
Southwest Virginia Community College

The College must report Federal Pell Grant disbursements to COD within 30 days of disbursement but no more than seven days before disbursement in accordance with 76 FR 32961.

In five of 35 (14 percent) students tested at Dabney S. Lancaster Community College and in 16 of 35 (46 percent) students tested at Southwest Virginia Community College, the Financial Aid office did not record disbursements using the Common Origination and Disbursement system for Pell awards within the required timeframe by reporting the disbursements up to six months before actual disbursement. The Financial Aid Office should report disbursements to COD within the required timeframes.

Properly Calculate and Return Title IV Funds

Applicable to: New River Community College
 Southwest Virginia Community College
 Dabney S. Lancaster Community College
 Virginia Western Community College

Student Financial Aid offices at these colleges did not properly calculate Return of Title IV funds for students who officially or unofficially withdrew from courses and no-longer qualified for Federal Financial Aid.

New River Community College inaccurately calculated return of Title IV funds for students that withdrew in fall 2010 and spring 2011. We found errors in 26 out of 31 student accounts tested resulting in the College incorrectly returning \$2,830 in Title IV funds to the U. S. Department of Education. In spring 2011, the College incorrectly reduced the original award amounts prior to completing the return to Title IV calculation resulting in the total grants and loans awarded, for the purposes of the calculation, to be understated. The Code of Federal Regulations 668.22 (e) (ii) requires the College to calculate the percentage earned by the student on the total of the Title IV grants and loans awarded. In fall 2010 the College used an inaccurate number of days in the semester for the purpose of determining the proportion of unearned financial aid.

Southwest Virginia Community College returned incorrect Title IV funds for 19 of 20 students tested (95 percent). The College used an inaccurate number of days in the semester for the purpose of determining the proportion of unearned financial aid. This caused overpayments of \$871 and underpayments of \$7,664 to the Department of Education.

For three of ten students (30 percent) tested, we found Dabney S. Lancaster Community College returned the total amount of aid to be returned instead of the amount required to be returned by school as by federal regulation. This caused an overpayment to the Department of Education and erroneous billings to students for returned amounts of \$1,347.

We found Virginia Western Community College returned incorrect amounts for three of twelve students tested (25 percent). This caused overpayments and underpayments to the Department of Education and erroneous billings to students for returned amounts. For two students, the college overpaid \$340.32 and erroneously billed those students for the returned aid, and for one student, the college returned \$373.20 less than it should have to the Department of Education.

Failure to properly calculate and return Title IV funds may jeopardize continued participation in Title IV programs.

Improve Student Financial Aid Control Environment

Applicable to: Virginia Western Community College
 Southwest Virginia Community College

We found that both Southwest Virginia and Virginia Western Community Colleges lack adequate contingency planning and documented procedures sufficient to ensure continued control over Student Financial Aid processes in the event that key personnel cannot perform their duties. We found that management of both colleges have not fully trained or cross-trained their staff on various financial aid processes.

Over the past few years, Virginia Western Community College has had significant turnover of key Financial Aid staff. As a result, management has not resolved prior control recommendations, has not created clearly defined roles and tasks for staff, and has not provided adequate training on federal compliance requirements. The impact of incomplete management oversight caused delays in processing student aid transactions and noncompliance with federal requirements.

Southwest Community College has only one trained employee to perform critical financial aid duties including the management of Title IV refunds, federal reporting and reconciliations, and eligibility determinations. The lack of cross training other individuals or documenting procedures performed by this individual sufficient to ensure continuity during their absence creates substantial risk over controls in the Financial Aid process.

We recommend that both colleges devote the resources necessary to ensure continuity in operations in the Financial Aid office in the event of an absence of their respective managers. Proper contingency planning would include cross-training financial aid staff to perform multiple duties and adequately documenting procedures that reflects the operations of the office.



Commonwealth of Virginia

Auditor of Public Accounts

Walter J. Kucharski
Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

June 18, 2012

The Honorable Robert F. McDonnell
Governor of Virginia

The Honorable John M. O'Bannon, III
Chairman, Joint Legislative Audit
And Review Commission

State Board of Community Colleges
Virginia Community College System

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS

We have audited the financial statements of the business-type activities and aggregate discretely presented component units of the **Virginia Community College System** as of and for the year ended June 30, 2011, which collectively comprise the System's basic financial statements and have issued our report thereon dated June 18, 2012. Our report includes a reference to other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. We did not consider internal controls over financial reporting or test compliance with certain provisions of laws, regulations, contracts, and grant agreements for the financial statements of the component units of the System, which were audited by other auditors in accordance with auditing standards generally accepted in the United States of America, but not in accordance with Government Auditing Standards.

Internal Control Over Financial Reporting

Management of the System is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the System's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the System's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the System's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, which are described in the sections titled “Internal Control and Compliance Findings and Recommendations,” and “Student Financial Aid Compliance and Internal Control Findings” that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the System’s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards. Instances of noncompliance and other matters are described in the sections titled “Internal Control and Compliance Findings and Recommendations” and “Student Financial Aid Compliance and Internal Control Findings.”

The System’s response to the findings identified in our audit is included in the section titled “Agency Response.” We did not audit the System’s response and, accordingly, we express no opinion on it.

Status of Prior Findings

Northern Virginia Community College has not taken adequate corrective action with respect to the previously reported finding “Strengthen Controls over Purchase Card Program.” Accordingly, we included this finding in the section entitled “Internal Control and Compliance Findings and Recommendations.” The System has taken adequate corrective action with respect to audit findings reported in the prior year that are not repeated in this report.

Report Distribution and Exit Conference

The “Independent Auditor’s Report on Internal Control over Financial Reporting and on Compliance and Other Matters” is intended solely for the information and use of the Governor and General Assembly of Virginia, the Board of Visitors, and management, and is not intended to be and should not be used by anyone, other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

We discussed this report with management at an exit conference held on June 28, 2012.

AUDITOR OF PUBLIC ACCOUNTS

AWP/clj



July 12, 2012

Mr. Walter J. Kucharski
Auditor of Public Accounts
P.O. Box 1295
Richmond, Virginia 23218-1295

Dear Mr. Kucharski:

We are providing this letter in response to your report on the audit of the financial records of the Virginia Community College System for the fiscal year ended June 30, 2011.

We confirm that we have received the findings and recommendations and have prepared the attached response and corrective action plan.

If you have any questions, please contact Dave Mair, VCCS Controller, at (804) 819-4929.

Sincerely,

A handwritten signature in black ink, appearing to read "Glenn DuBois", is written over the typed name and title.

Glenn DuBois
Chancellor

GD/dsm

Enclosure

cc: Ms. Donna VanCleave
Ms. Helen Vanderland
Mr. Dave Mair

INTERNAL CONTROL AND COMPLIANCE FINDINGS AND RECOMMENDATIONS

Improve Monitoring Controls Over High Risk Transactions

Applicable to: System Office
 Mountain Empire Community College
 New River Community College
 Northern Virginia Community College
 Southwest Virginia Community College
 Tidewater Community College
 Virginia Highlands Community College
 Wytheville Community College

The Virginia Community College System (VCCS) designed its application controls within the PeopleSoft Accounting Information System to potentially permit improper separation of duties within the general accounting and accounts payable processes. While VCCS designed roles within the application in order to accommodate both large and small business offices at each College, there are some inherent risks involved in doing this. Our review of application role assignments across all of the Colleges tested found multiple instances where users could perform the following high risk activities.

- Change the vendor table and create and process accounts payable transactions, which allows for payments.
- Enter and release general ledger entries.
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These permission combinations within the accounting system are inherently risky as they permit processes, which the same users should not perform. We understand that many of the Colleges with minimal staff in their business office need to have these access roles for backup and contingency planning purposes in the event of an emergency or absence of key personnel. However, the Colleges should have a means of monitoring these transactions when they do occur since they carry a higher amount of risk.

Modern accounting systems rely on programmed internal controls and not manual processes. While manual processes may create the illusion of having proper internal control and separation of duties, the responsibilities and duties as they exist in the system are what the individual can really do regardless of whether a person signs or reviews a piece of paper.

While each College outlines how individuals manually separate their performance within processes in their policies and procedures manuals; there is an absence of a monitoring activity combined with the lack of preventive system controls discussed above. We believe this situation creates undue risk that managers and others could override manual policies and authorize improper transactions within the system without detection.

Our additional substantive tests did not discover any inappropriate or unreasonable accounts payable or general ledger transactions. However, the System office should develop and disseminate a monitoring report to each College on a periodic basis that would identify instances where individuals have overridden these policies and procedures so management can take action to ensure that those high risk transactions are appropriate.

Deactivate Separated Employees' Finance Application Access Timely

Applicable to: Northern Virginia Community College

Our review of all active AIS and SIS PeopleSoft users found 15 terminated employees with active access to Northern Virginia Community College's Student Information System. It is a generally accepted best practice for timely removal all application access upon employee termination to enhance the security of sensitive and mission critical data and processes.

Management needs to change the current College procedures for removing access to the network, operating systems, and applications to include the timely removal of all system access. We recommend the Colleges develop, implement, and enforce adequate procedures to ensure deleting all system access in a timely manner upon employee termination.

Update the Authorized Signatory Card for Local Fund Accounts

Applicable to: Wytheville Community College

A terminated Wytheville Community College employee had bank signatory authority for more than 11 months after resigning. This signatory authority allowed this individual to act as a representative with the bank on behalf of Wytheville Community College. Although we found no indication of misappropriation of funds, this represents an internal control weakness.

Wytheville Community College should establish, implement, and document a process to update signature authority immediately upon employee separation. Management should also periodically review the appropriateness of signatory authority as an additional measure to prevent unauthorized access.

Deactivate Separated Employees' Procurement Application (eVA) Access Timely

Applicable to: Northern Virginia Community College (Repeat Finding)
Tidewater community College
Wytheville Community College

We found that the College personnel were not following employee separation procedures for the removal of information system access to various applications.

We found Northern Virginia Community College did not remove access to eVA for 19 of 27 terminated employees within a reasonable time after separation.

We found Tidewater Community College did not remove access to eVA for 5 of 8 terminated employees within a reasonable time after separation.

Wytheville Community College did not have a process in place to review user access to the eVA application periodically.

The Department of General Services' (General Services) eVA Electronic Procurement System Security Standards section 3.1.5 requires the deactivation of all system privileges within 24 hours after an employee's termination. Compliance with these standards is necessary to prevent misuse and possible fraud. eVA is a web application that anyone can access by computer, therefore; deactivating eVA user IDs promptly is necessary to keep former employees from accessing the system after their termination.

Strengthen Controls over Purchase Card Program

Applicable to: Northern Virginia Community College (Repeat Finding)

Northern Virginia Community College continues to have inadequate control over its purchase card program. Individual cardholders for Northern Virginia Community College that are responsible for maintaining relevant documentation supporting charge card purchases were unable to provide complete purchase logs, reconciliations, or supporting receipts for .

The College should enforce their established policies and procedures for use of small purchase charge cards. Management may employ procedures to enhance the enforcement of the policies and procedures through monitoring processes, increased training, increasing the pre-approval process for purchase card transactions, or any combination of the three. When management identifies cardholders who are not following the College's policies and procedures, they should take appropriate action in order to mitigate the risk of fraud, waste and abuse by cardholders.

Perform Fixed Asset Physical Inventories

Applicable to: Mountain Empire Community College
New River Community College
Wytheville Community College

Mountain Empire Community College did not perform a complete physical inventory of capital assets within the two year period established within its fixed asset accounting policy. While we recognize that MECC's fixed asset employee left employment while in the process of conducting the bi-annual inventory, MECC did not finish the inventory until after the completion of our fieldwork.

New River Community College did not perform a complete capital asset inventory within the required two year period. While staff did an inventory of some equipment, they did not perform a full inventory of all controllable assets. The College also did not properly identify or correct reconciling items during the partial inventory.

Wytheville Community College did not complete a capital asset inventory within the required two year period. We recognize that Wytheville also experienced significant turnover during the audit period, however the periodic inventory process is a critical control in ensuring the existence and completeness of equipment.

Periodic inventories are a key control that helps to ensure the accuracy and integrity of capital asset records and mitigates the risk of stolen or lost College property. The Colleges should follow their established policies and carry out the periodic inventory in a manner that allows a 100 percent inventory of all controllable assets within a two year period to address this risk.

Improve Payroll and Leave Controls

Applicable to: New River Community College

New River Community College (NRCC) could not provide work study timesheets for fiscal year 2011. Colleges must verify that an appropriate party has properly completed and authorized all source documents such as timecards, timesheets, or any other authorization to pay or adjust an employee's pay, are accurate and recorded in the payroll system. Additionally, the Colleges must maintain evidence of such changes so that it is accessible for current or future reviews. By not having the appropriate evidence of time student work-study work times increases the risk that the College may have to repay the Federal Government all of amounts paid. NRCC should revise its records retention procedures to ensure payroll source documents are properly maintained and accessible for a reasonable period of time.

Additionally, NRCC could not provide policies, procedures, or supporting evidence for their leave liability accrual. While we were able to materially substantiate the College's leave liability through alternative analytical procedures, the College should develop, implement, and adhere to consistent procedures for calculating leave liability each year.

STUDENT FINANCIAL AID COMPLIANCE AND INTERNAL CONTROL FINDINGS

Improve Notification of Direct Loan Awards to Students

Applicable to: Dabney S. Lancaster Community College
New River Community College

The Financial Aid Office is not properly notifying students of Federal Direct Loan Awards. The Financial Aid Office communicates loan awards verbally to students when they speak with a financial aid staff member instead of the required written notification to students which provide important details on the rights, options, and requirements of the student loan.

Code of Federal Regulations, Title 34 CFR 668.165(a)(2), requires institutions to properly notify students receiving direct loans, in writing, of the date and amount of the disbursement, the student's right to cancel all or a portion of a loan or loan disbursement, and the procedure and time by which the student must notify the institution that he or she wishes to cancel the loan. Failure to properly notify students in accordance with Federal Regulations may result in fines, withholding of Title IV funds, or suspension or termination of participation in Title IV programs.

Reconcile Financial Aid Activity to Federal Systems

Applicable to: Dabney S. Lancaster Community College
New River Community College
Virginia Western Community College

These Colleges are not reconciling their accounting records with the Direct Loan Servicing System (DLSS) or their Pell financial records with the Common Origination and Disbursement (COD) system.

In accordance with 34 CFR 685.301(e) and 34 CFR 685.201(b), colleges must report all loan disbursements and submit required records to the Direct Loan Servicing System via the COD within 30 days of disbursement. Each month, the COD provides the college with a School Account Statement (SAS) data file which consists of a Cash Summary, Cash Detail, and Loan Detail records. The Financial Aid Office should reconcile its financial records with those of the Federal Government monthly to help ensure the accuracy and completeness of both sets of records.

Appropriately Report Federal Pell Grant Disbursements

Applicable to: Dabney S. Lancaster Community College
Southwest Virginia Community College

The College must report Federal Pell Grant disbursements to COD within 30 days of disbursement but no more than seven days before disbursement in accordance with 76 FR 32961.

In five of 35 (14 percent) students tested at Dabney S. Lancaster Community College and in 16 of 35 (46 percent) students tested at Southwest Virginia Community College, the Financial Aid office did not record disbursements using the Common Origination and Disbursement system for Pell awards within the required timeframe by reporting the disbursements up to six months before actual disbursement. The Financial Aid Office should report disbursements to COD within the required timeframes.

Properly Calculate and Return Title IV Funds

Applicable to: New River Community College
Southwest Virginia Community College
Dabney S. Lancaster Community College
Virginia Western Community College

Student Financial Aid offices at these colleges did not properly calculate Return of Title IV funds for students who officially or unofficially withdrew from courses and no-longer qualified for Federal Financial Aid.

New River Community College inaccurately calculated return of Title IV funds for students that withdrew in fall 2010 and spring 2011. We found errors in 26 out of 31 student accounts tested resulting in the College incorrectly returning \$2,830 in Title IV funds to the U. S. Department of Education. In spring 2011, the College incorrectly reduced the original award amounts prior to completing the return to Title IV calculation resulting in the total grants and loans awarded, for the purposes of the calculation, to be understated. The Code of Federal Regulations 668.22 (e) (ii) requires the College to calculate the percentage earned by the student on the total of the Title IV grants and loans awarded. In fall 2010 the College used an inaccurate number of days in the semester for the purpose of determining the proportion of unearned financial aid.

Southwest Virginia Community College returned incorrect Title IV funds for 19 of 20 students tested (95 percent). The College used an inaccurate number of days in the semester for the purpose of determining the proportion of unearned financial aid. This caused overpayments of \$871 and underpayments of \$7,664 to the Department of Education.

For three of ten students (30 percent) tested, we found Dabney S. Lancaster Community College returned the total amount of aid to be returned instead of the amount required to be returned by school as by federal regulation. This caused an overpayment to the Department of Education and erroneous billings to students for returned amounts of \$1,347.

We found Virginia Western Community College returned incorrect amounts for three of twelve students tested (25 percent). This caused overpayments and underpayments to the Department of Education and erroneous billings to students for returned amounts. For two students, the college overpaid \$340.32 and erroneously billed those students for the returned aid, and for one student, the college returned \$373.20 less than it should have to the Department of Education.

Failure to properly calculate and return Title IV funds may jeopardize continued participation in Title IV programs.

Improve Student Financial Aid Control Environment

Applicable to: Virginia Western Community College
Southwest Virginia Community College

We found that both Southwest Virginia and Virginia Western Community Colleges lack adequate contingency planning and documented procedures sufficient to ensure continued control over Student Financial Aid processes in the event that key personnel cannot perform their duties. We found that management of both colleges have not fully trained or cross-trained their staff on various financial aid processes.

Over the past few years, Virginia Western Community College has had significant turnover of key Financial Aid staff. As a result, management has not resolved prior control recommendations, has not created clearly defined roles and tasks for staff, and has not provided adequate training on federal compliance requirements. The impact of incomplete management oversight caused delays in processing student aid transactions and noncompliance with federal requirements.

Southwest Community College has only one trained employee to perform critical financial aid duties including the management of Title IV refunds, federal reporting and reconciliations, and eligibility determinations. The lack of cross training other individuals or documenting procedures performed by this individual sufficient to ensure continuity during their absence creates substantial risk over controls in the Financial Aid process.

We recommend that both colleges devote the resources necessary to ensure continuity in operations in the Financial Aid office in the event of an absence of their respective managers. Proper contingency planning would include cross-training financial aid staff to perform multiple duties and adequately documenting procedures that reflects the operations of the office.

VIRGINIA COMMUNITY COLLEGE SYSTEM – RESPONSES TO AUDIT FINDINGS

Improve Monitoring Controls Over High Risk Transactions

System Office Response on behalf of the VCCS:

The System Office (SO) is currently assessing the security roles offered within the Accounting Information System (AIS) and will create more granular roles. This modification will provide greater flexibility to the colleges with regard to restricting permissions within the System. However, given resource limitations and the need for backup and contingency planning, some colleges will still be unable to implement system controls that will provide the desired separation of duties. Therefore, colleges will be instructed to continue manual internal control activities designed to ensure appropriate separation of duties. The SO plans to inform colleges of new security roles by September 30, 2012.

In addition, the SO is in the process of developing monitoring reports as suggested by the APA. These reports will give college management the ability to monitor processing of high risk transactions to identify unusual activity, including any instances in which individuals have performed incompatible tasks within AIS. System Office plans to disseminate monitoring reports to the colleges by September 30, 2012.

Implementation Date: September 30, 2012

Position Responsible: VCCS Controller

Deactivate Separated Employees' Finance Application Access Timely

Northern Virginia Community College Response:

NOVA has added a Human Resources position at every campus with the responsibility of removing system access for terminated employees. This position will ensure the completion of the appropriate forms for termination of employment including a form which terminates access to all IT systems. The IT access form will be submitted to the IT division responsible for handling employee access. This position

will also be responsible for collecting college owned property including keys, identification badge and other inventory.

Implementation Date: October 31, 2012

Position Responsible: Human Resource Director

Update the Authorized Signatory Card for Local Fund Accounts

Wytheville Community College Response:

The college has implemented a new procedure for management review of signatory authority on a quarterly basis or immediately upon employee separation when that employee has signatory authority.

Implementation Date: July 5, 2012

Position Responsible: Business Manager

Deactivate Separated Employees' Procurement Application (eVA) Access Timely

Northern Virginia Community College Response:

NOVA has added a Human Resources position at every campus with the responsibility of removing system access for terminated employees. This position will ensure the completion of the appropriate forms for termination of employment including a form which terminates access to all IT systems including eVA. The IT access form will be submitted to the IT division responsible for handling employee access.

Implementation Date: October 31, 2012

Position Responsible: Human Resource Director

Tidewater Community College Response:

The college recognizes the need to terminate eVA access in a timely manner and includes this information in its eVA employee agreement, Procurement Policy and Procedure, and eVA training sessions. The Financial Systems and Operations staff have the responsibility for deactivating access in eVA, and they do so within the timeline once notified; however, they are dependent upon other employees/departments to inform them in a timely fashion. In the case of these five associates, the Financial Systems & Operations Office was not notified of the terminations within the required 24 hours.

This will be remedied with two actions: 1) Human Resources staff will scan and email employee termination forms immediately upon receipt to the Financial Systems and Operations Office, and 2) Materiel Management staff will send a reminder email to the terminated employee's supervisor with a copy to the respective executive-level administrator that s/he failed to notify the office of the employee's termination.

Implementation Date: August 1, 2012

Positions Responsible: Director of Materiel Management
Director of Human Resources
Director of Financial Information Systems and Operations

Wytheville Community College Response:

Procedures have been implemented whereby user access to the eVA application is reviewed on a quarterly basis. Processes in place ensure the completion of the appropriate forms for termination of employment to all IT systems, including eVA, immediately upon employee separation.

Implementation Date: March 15, 2012

Position Responsible: IT Director

Strengthen Controls over Purchase Card Program

Northern Virginia Community College Response:

The college developed the following actions to strengthen and improve controls over the purchase card program at NOVA:

- Increase Campus Procurement Buyers staff so that each campus will have a Campus Procurement Buyer designated for their campus to assist college users to properly acquire goods and services and utilize contracts. A Campus Procurement Buyer will be available on a daily basis at each campus to assist cardholders.
- Reduce the quantity of Small Purchase Charge Card (SPCC) cardholders from its present volume to a smaller group, but provide each Campus Procurement Buyer with higher spending limits on their P-Cards to assist campus users with purchases on their campuses.
- Reset approval flow of all P-Card purchases so that all purchases are directed to and approved by the Campus Buyer.
- All monthly logs, receipts and reconciliation documents will be reviewed and approved by the Campus Buyer on a monthly basis at the end of each billing cycle. The Campus Buyer will sign and date each log monthly before the start of the next billing cycle.
- Based on the Campus Buyer's monthly review, the individual SPCC cardholders will be invited and/or required to attend individual refresher training to maintain their card privileges.
- After the Campus Buyer review and approval, the complete monthly log with all documents and receipts will be sent to central purchasing office where they will be maintained for appropriate period of time per policy.

Implementation Date: October 31, 2012

Position Responsible: Director of Materiel Management

Perform Fixed Asset Physical Inventories

Mountain Empire Community College Response:

Mountain Empire Community College has completed the physical inventory of capital assets. Procedures have been modified to assure the physical inventory of capital assets is completed within each two year period as required by the VCCS fixed asset accounting policy.

Implementation Date: December 2012

Position Responsible: Fixed Assets Coordinator

New River Community College Response:

New River Community College will implement a plan for performing a capital asset inventory to ensure a complete and thorough inventory is performed each 2-year cycle. This plan will consist of improved documentation to ensure that all assets are properly identified and reconciling items are corrected. A thorough capital asset inventory will be performed in fiscal year 2013.

Implementation Date: June 30, 2013

Position Responsible: Human Resources and Business Operations Manager

Wytheville Community College Response:

A Fixed Asset Clerk has been hired to perform the reconciliation of inventory and the fixed asset system.

A full physical inventory is planned in five phases:

- Phase 1 – Complete data entry into the AIS system and IT Inventory Database (April – June 2012)
- Phase 2 – Conduct Physical Inventory of Main Campus (July – August 2012)
- Phase 3 – Conduct Physical Inventory of Galax Satellite Location (September – October 2012)
- Phase 4 – Conduct Physical Inventory of Smyth County Satellite Location (November 2012)
- Phase 5 – Complete data entry into the AIS system (December 2012 – January 2013)

Inventory will be fully reconciled to the AIS system by February 15, 2013. Once all phases are complete, the college will ensure that physical inventories are conducted on a cyclical basis in compliance with the CAPP manual.

Implementation Date: Various stages as shown above.

Position Responsible: Vice President of Finance

Improve Payroll and Leave Controls

New River Community College Response:

The Financial Aid Office has implemented a revised plan for retaining and storing Federal Work Study (FWS) timesheets effective immediately. The responsibility for maintaining these timesheets has now been transferred to a full time employee who will retain the documents in the financial aid office for two full years.

Implementation Date: May 5, 2012

Position Responsible: Director of Financial Aid

The Human Resource Office is creating a comprehensive policies and procedures manual, which will include payroll and human resource functions. The leave liability accrual procedure and the supporting documentation for their calculation will be included in this manual.

Implementation Date: December 31, 2012

Position Responsible: Human Resources & Business Operations Manager

Improve Notification of Direct Loan Awards to Students

Dabney S. Lancaster Community College Response:

The college requires each loan student to receive in-person loan counseling as part of the default prevention effort. During these sessions, the college verbally communicated this information. Beginning with the fall 2011 counseling sessions, the college developed an additional sheet containing all of this information in writing. The students sign one copy which will be placed in their file and are given a copy to keep for their information.

Implementation Date: August 2011

Position Responsible: Director of Financial Aid

New River Community College Response:

The Financial Aid Office has implemented a procedure for sending written notifications to all students who receive Federal Direct Loan awards. The notifications include the information required by Title 34 CFR 668.165(a) (2).

Implementation Date: August 15, 2011

Position Responsible: Director of Financial Aid

Reconcile Financial Aid Activity to Federal Systems

Dabney S. Lancaster Community College Response:

The Financial Aid Office has implemented procedures to ensure that the college is reconciling the accounting records with the Direct Loan Servicing System and the Common Origination and Disbursement systems.

Implementation Date: August 2011 (Fall 2011 Term)

Position Responsible: Coordinator of Financial Aid and Veterans Affairs

New River Community College Response:

The Financial Aid Office has implemented a monthly procedure to receive and reconcile the School Account Statement (SAS) to its financial records. A reconciliation spreadsheet is prepared, reviewed, and retained in the Financial Aid Office each month.

Implementation Date: August 8, 2011

Position Responsible: Director of Financial Aid

Virginia Western Community College Response:

The college developed a process to ensure reconciliation of the Direct Loan and Pell grants on a regular basis. Direct Loans will be reviewed monthly and Pell grants will be reviewed at least quarterly.

Implementation Date: March 2012

Position Responsible: Coordinator of Financial Aid/Veteran's Affairs

Appropriately Report Federal Pell Grant Disbursements

Dabney S. Lancaster Community College Response:

The college has implemented new procedures to ensure that disbursements are made appropriately in accordance with federal guidelines and reported to COD in a timely manner.

Implementation Date: August 2011 (Fall 2011 Term)

Position Responsible: Coordinator of Financial Aid and Veterans Affairs

Southwest Virginia Community College Response:

A date was incorrect in the Student Information System setup which led to the untimely reporting of disbursements to COD. Steps have been taken to ensure that there are no date issues in the system that will cause this problem. A cross check system will be implemented during the Student Information System yearly setup to check for date errors. The college will also work closely with COD to ensure timely reporting in order to meet the federal guidelines in accordance with 76 FR 32961.

Implementation Date: Has been completed

Position Responsible: Financial Aid Officer

Properly Calculate and Return Title IV Funds

New River Community College Response:

The Financial Aid Office has re-calculated the return of Title IV funds for students that withdrew in fall 2010 and spring 2011 and made the necessary adjustments to amounts returned. The Financial Aid Office has also updated its procedure for calculating return of Title IV funds by using the percentage earned by the student on the total of the Title IV grants and loans awarded. The procedure to calculate the correct number of days in the semester to incorporate dates for breaks in its return of Title IV funds has also been updated to ensure the proper calculation of the return of Title IV funds.

Implementation Date: January 5, 2012

Position Responsible: Director of Financial Aid

Southwest Virginia Community College Response:

The Return to Title IV refund problem was mainly due to the misinterpretation of the dates used by the Financial Aid Office. The last day of classes instead of the last day of exams was used. The Financial Aid Officer has reviewed and corrected every Return to Title IV student for Summer 10, Fall 10, and Spring 11.

The Financial Aid Office, Business Office, and Admissions Office will work together to ensure the proper calculation of the return of Title IV funds. Cross training will continue to occur to support the unified effort by the Financial Aid Office, Business Office, and Admissions Office.

Implementation Date: Has been completed.

Position Responsible: Financial Aid Officer

Dabney S. Lancaster Community College Response:

The College has implemented procedures whereby the Financial Aid Office and Business Office work together to ensure the proper calculation of the return of Title IV funds.

Implementation Date: August 2011 (Fall 2011 Term)

Position Responsible: Coordinator of Financial Aid and Veterans Affairs

Virginia Western Community College Response:

Return to Title IV funds for students will be more closely managed and reviewed to ensure that correct amounts are entered into the PeopleSoft system. The Financial Aid Office will review the amounts before

submitting to the Department of Education to ensure accurate reporting and will inform students of the correct amount due to the college. Corrections have been made to previously affected students and accounts updated.

Implementation Date: February 2012

Position Responsible: Coordinator of Financial Aid/ Veterans Affairs

Improve Student Financial Aid Control Environment

Virginia Western Community College Response:

The College has filled the Coordinator of Financial Aid with an individual that has the full college support and commitment for training, development and provision of leadership for the staff and program activities. This hire is charged with promoting and establishing the control environment that is expected for proper internal controls, regulatory compliance and for adequate supervision and management of financial aid staff.

Implementation Date: All vacancies were filled in October 2011. All new hires have received extensive training. Cross training is on-going.

Position Responsible: Dean of Student Services

Southwest Virginia Community College Response:

Cross training is underway and will be ongoing. Financial Aid updated the procedures manual to include COD information and changes that took place in fiscal year 2012.

Implementation Date: Cross-training has begun and will be ongoing.
Procedures manual has been updated.

Position Responsible: Financial Aid Officer

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